

Message Text

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ACTION EUR-12

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FM AMEMBASSY BRUSSELS

TO AMEMBASSY LISBON IMMEDIATE

INFO SECSTATE WASHDC IMMEDIATE 4741

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E.O. 11652: N/A

TAGS: EIND/PO

SUBJECT: ITT EUROPE LETTER TO AMBASSADOR CARLUCCI

1. ITT EUROPE HEADQUARTERS HAS ASKED EMBASSY TO FORWARD FOLLOWING COMMUNICATION DATED AUGUST 25, 1975 TO AMBASSADOR CARLUCCI ON URGENT BASIS. ITT INFORMS US THAT REPS OF US PARENT SCHEDULED TO BRIEF DEPARTMENT TODAY ON DECISION DISCUSSED IN THIS LETTER. MEMORANDUM TO GOP WITH PORTUGUESE TRANSLATION MAILED FROM BRUSSELS EVENING AUGUST 22 AND SECOND COPY MAILED IN LISBON AUGUST 23.

2. BEGIN TEXT: DEAR AMBASSADOR: THE ENCLOSED LETTER IS BEING SENT TODAY TO THE PORTUGUESE OFFICIALS INDICATED THEREIN. I AM CERTAIN THAT YOU WILL APPRECIATE THE CAREFUL CONSIDERATION WE HAVE GIVEN TO OUR PRESENT PROBLEMS IN PORTUGAL BEFORE TAKING THIS STEP. WE DECIDED TO PROCEED ONLY AFTER HAVING DECIDED THAT THE GRAVITY OF OUR FINANCIAL SITUATION IN PORTUGAL, COUPLED WITH OUR LOSS OF EFFECTIVE MANAGEMENT CONTROL, MADE CONTINUANCE OF THE PRESENT STATE OF AFFAIRS UNREALISTIC.

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3. HOWEVER, AS THE ATTACHED COMMUNICATION INDICATES, WE RE-

MAIN DISPOSED TO CONTINUE CERTAIN COMMERCIAL AND TECHNOLOGICAL RELATIONSHIPS WITH OUR PORTUGUESE AFFILIATES. SHOULD ECONOMIC CONDITIONS IMPROVE, AND IN THE EVENT THAT EFFECTIVE MANAGEMENT CONTROL OF OUR PORTUGUESE AFFILIATES IS RESTORED, WE WOULD ANTICIPATE A RETURN TO OUR NORMAL OPERATING PATTERNS. WE WOULD APPRECIATE YOUR GOOD OFFICES IN WORKING TOWARD THAT RESULT.

4. I REGRET THAT IT WAS NOT POSSIBLE TO MEET WITH YOU PERSONALLY BEFORE DELIVERING THE ATTACHED COMMUNICATION. REPRESENTATIVES OF ITT WILL MEET TODAY IN WASHINGTON WITH STATE DEPARTMENT OFFICIALS TO DISCUSS IT AND OUTLINE THE CONSIDERATIONS LEADING TO ITS DESPATCH. SINCERELY YOURS, MAURICE R. VALENTE, PRESIDENT.
END TEXT.

5. ATTACHED LETTER DATED AUGUST 22, 1975 TO PORTUGUESE MINISTERS OF ECONOMIC COORDINATION, FINANCE, INDUSTRY, AND FOREIGN TRADE READS AS FOLLOWS: BEGIN TEXT: THE PURPOSE OF THIS MEMORANDUM IS TO BRING TO THE ATTENTION OF THE PORTUGUESE GOVERNMENT THE FACT THAT THE SHAREHOLDERS OF OLIVA-INDUSTRIAS METALURGICAS, S.A.R.L., OLIVA-COMMERCIAL, S.A.R.L., OLIVA DE ANGOLA-COMERCIOE INDUSTRIA, S.A.R.L., RABOR-CONSTRUCCOES ELECTRICAS, S.A.R.L., STANDARD ELECTRICA, S.A.R.L., HOTEIS SHERATON DE PORTUGAL, S.A.R.L. (70 PERCENT), AND IMPRIMARTE PUBLICACOES E ARTES GRAFICAS, S.A.R.L., FIND THEMSELVES IN A DIFFICULT POSITION WHICH WARRANTS THIS COMMUNICATION AND THE ACTIONS OUTLINED BELOW.

6. ITT BEGAN A PROGRAM OF INVESTMENT IN THE PORTUGUESE ECONOMY SOME 43 YEARS AGO WITH THE CREATION OF STANDARD ELECTRICA IN LISBON. IN THE PERIOD OF 1967 TO 1973 ALONE, CASH INVESTMENTS OF APPROXIMATELY \$27 MILLION WERE MADE IN PORTUGUESE COMPANIES. DURING THE TEN YEAR PERIOD ENDING IN 1973, MORE THAN THREE QUARTERS OF THE EARNINGS REMAINED IN THE COMPANIES IN PORTUGAL AS RETAINED EARNINGS AND ONLY \$4.4 MILLION WAS PAID OUT IN DIVIDENDS. BY 1974, THE ABOVE MENTIONED COMPANIES REPRESENTED ASSETS OF \$100 MILLION AND EMPLOYED APPROXIMATELY 7,000 PEOPLE. WE CONSIDER THAT WITH ITS RECORD OF GROWTH, REINVESTMENT OF EARNINGS, PROVISION OF ADVANCED TECHNOLOGY, TRAINING OF PERSONNEL, DEVELOPMENT OF TOURISM, AND SUCCESSFUL EXPORT PROGRAMS, THAT ITT AS
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SHAREHOLDERS HAVE AMPLY DEMONSTRATED GOOD FAITH AND CONDUCTED THEMSELVES RESPONSIBLY AS A LARGE INVESTOR AND CONTRIBUTOR TO PORTUGAL FROM BOTH ECONOMIC AND SOCIAL STANDPOINTS.

7. BEGINNING IN 1974, AS A RESULT OF VERY SUBSTANTIAL WAGE INCREASES IMPOSED UPON THE COMPANIES, SIMULTANEOUSLY WITH PRICE CONTROLS, AGGRAVATED BY A RAPIDLY DECLINING MARKET FOR SOME PRODUCTS AND SERVICES, THE BUSINESS SITUATION OF THESE

COMPANIES WAS SIGNIFICANTLY IMPAIRED AND BOTH OLIVA AND RABOR AS WELL AS THE SEMI-CONDUCTORS DIVISION OF STANDARD ELECTRICA BEGAN SUFFERING VERY HEAVY LOSSES. BY EARLY 1975 IT BECAME APPARENT THAT THESE LOSSES WOULD CONTINUE AND THAT WITHOUT GOVERNMENT SUPPORT IN THE AREA OF BANK LOANS AND EFFECTIVE COOPERATION ON WAGE AND WORK FORCE ADJUSTMENTS, OLIVA AND RABOR COULD NOT REMAIN VIABLE BUSINESSES.

8. IN VIEW OF THIS SITUATION, MEETINGS WERE HELD WITH THE MINISTERS OF INDUSTRY, FOREIGN TRADE AND LABOR, AND THEREAFTER THE OUTLINE OF A PROPOSED PROTOCOL WAS DEPOSITED WITH THE GOVERNMENT ON MAY 7. WE ENVISAGED THIS PROTOCOL AS THE BASIS FOR A WORKING RELATIONSHIP BUT, AS OF TODAY, MORE THAN THREE MONTHS LATER, WE HAVE RECEIVED NO OFFICIAL RESPONSE FROM THE GOVERNMENT. IN THE MEANTIME, CIRCUMSTANCES HAVE CONTINUED TO DETERIORATE. NEVERTHELESS, AS A FURTHER GESTURE OF GOODWILL, WE HAVE PROVIDED AS DIRECT LOANS ALMOST \$3.5 MILLION OF OUR OWN FUNDS TO COVER CASH REQUIREMENTS OF OLIVA, RABOR AND SEMI-CONDUCTORS. IN CONTRAST, PORTUGUESE BANKING SUPPORT HAS THUS FAR BEEN LIMITED TO A \$500,000 LOAN TO OLIVA AT THE END OF JULY.

9. IN ADDITION TO THE ABOVE SEQUENCE OF EVENTS, THE FOLLOWING MATTERS DEEPENED OUR CONCERN:

A. AT STANDARD ELECTRICA, SHERATON, IMPRIMARTE AND RABOR, THE WORKERS HAVE PURGED CERTAIN KEY EMPLOYEES, INCLUDING FOREIGN NATIONALS, WHO HAD BEEN EMPLOYED FOR THEIR SPECIFIC SKILLS TO STRENGTHEN AND HELP THE COMPANIES. IN ADDITION, THE OLIVA WORKERS' COMMITTEE HAS RECENTLY FRUSTRATED THE APPOINTMENT OF A NEW COMPTROLLER AND AN EXECUTIVE ASSISTANT (BOTH PORTUGUESE) WHOM WE FELT WERE IMPORTANT TO THE

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COMPANY AT THIS CRITICAL TIME. IT IS CLEAR THEREFORE THAT THE SHAREHOLDERS NO LONGER HAVE EFFECTIVE MANAGEMENT CONTROL OF THE ABOVE COMPANIES.

B. THE EMPLOYEES OF STANDARD ELECTRICA HAVE RECENTLY REFUSED TO ACCEPT THE DECISION OF MUTUALLY AGREED UPON COMMITTEE OF INQUIRY WITH RESPECT TO THE REINSTATEMENT OF CERTAIN MANAGEMENT PERSONNEL PREVIOUSLY SUSPENDED AT THE DEMAND OF EMPLOYEES.

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ACTION EUR-12

INFO OCT-01 ISO-00 SAM-01 EURE-00 INRE-00 NSCE-00 USIE-00

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FM AMEMBASSY BRUSSELS

TO AMEMBASSY LISBON IMMEDIATE

INFO SECSTATE WASHDC IMMEDIATE 4742

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C. RECENT WAGE INCREASES OF BETWEEN 12 AND 20 PER CENT IN THE ELECTRICAL AND ELECTRONICS INDUSTRIES, OVER AND ABOVE THE APPROXIMATELY 80 PERCENT INCREASE GRANTED IN 1974, HAVE WORSENERD THE ECONOMIC SITUATION OF SOME OF THE OPERATIONS THUS AUGMENTING THE LOSSES OF SEMI-CONDUCTORS AND RABOR.

D. IMPRIMARTE RECEIVED NOTICE OF CANCELLATION OF ITS CONTRACTS AFTER THE PRICE BOARD REFUSED TO AGREE TO RATE INCREASES (WHICH HAD BEEN ACCEPTED BY IMPRIMARTE'S CUSTOMERS) TO OFFSET COST INCREASES WHICH WILL CAUSE IMPRIMARTE TO INCUR OPERATING LOSSES BEFORE THE END OF 1975.

3. WE HAVE JUST BEEN ADVISED THAT THE CAIXA GERAL DE DEPOSITOS COMMUNICATED WITH OLIVA AND RABOR INDICATING THAT THE STUDY COULD BE MADE CONCERNING LONG-TERM LOANS FOR THESE COMPANIES IN AMOUNTS APPRECIABLY SMALLER THAT THOSE ORIGINALLY REQUESTED, AND SUBSEQUENTLY MENTIONED IN THE PROTOCOL, AND ACTUALLY REQUIRED BY THE AGGRAVATED FINANCIAL CONDITION OF THESE COMPANIES. FURTHERMORE, A REQUEST HAS BEEN MADE BY THE CAIXA GERAL DE DEPOSITOS FOR THE SHAREHOLDER TO RECAPITALISE THE COMPANIES IN AMOUNTS EQUAL TO OR GREATER THAN THE PROPOSED LOANS, NONE OF WHICH IS IN ACCORDANCE WITH THE TEXT OF THE PROTOCOL.

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10. AS INDICATED ABOVE, WE HAVE MADE EXTENSIVE AND STRENUOUS EFFORTS UNDER INCREASINGLY DIFFICULT CONDITIONS QUITE BEYOND OUR CONTROL TO MAINTAIN THE CONTINUITY OF OUR OPERATIONS IN RECOGNITION OF OUR LONG ASSOCIATION WITH AND CONTRIBUTION TO PORTUGAL. HOWEVER, WE FEEL WE HAVE NOW REACHED THE LIMIT OF OUR POSSIBILITIES IN THE MAINTENANCE AND CONTROL OF OUR OPERATIONS. WE ARE THEREFORE UNABLE TO MAKE ANY FURTHER ADVANCES OF FUNDS TO OUR PORTUGUESE AFFILIATES TO MEET CURRENT OPERATING EXPENSES. THEREFORE WE SEE NO ALTERNATIVE BUT RECOGNIZE THE FACT THAT WE CANNOT NOW PROVIDE EFFECTIVE MANAGEMENT SUPPORT AND MUST SUSPEND ANY FINANCIAL SUPPORT OF OUR COMPANIES.

11. THESE ACTIONS ARE BEING TAKEN PENDING THE RESTORATION OF EFFECTIVE MANAGEMENT CONTROL AND THE RETURN OF ECONOMIC CONDITIONS WHICH WOULD ALLOW US TO CARRY ON EFFICIENT COMPETITIVE OPERATIONS. WE TAKE THESE ACTIONS ONLY WITH EXTREME RELUCTANCE LARGELY DUE TO OUR DEEP CONCERN FOR THE WELFARE OF OUR EMPLOYEES. TAKING INTO CONSIDERATION THE INTERESTS OF OUR EMPLOYEES WE ARE PREPARED TO CONTINUE COMMERCIAL AND TECHNOLOGICAL RELATIONSHIPS REGARDING THE EXISTING OPERATIONS OR OUR PORTUGUESE AFFILIATES ON A BASIS CONSISTENT WITH NORMAL COMMERCIAL PRACTICE WITHIN THE CONSTRAINTS IMPOSED BY THE SITUATION DESCRIBED ABOVE. SIGNED M.R, VALENTE, PRESIDENT.

12. LETTER AND MEMORANDUM BEING POUCHED LISBON AUGUST 25.RENNER

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